HOUSING MARKET INFORMATION

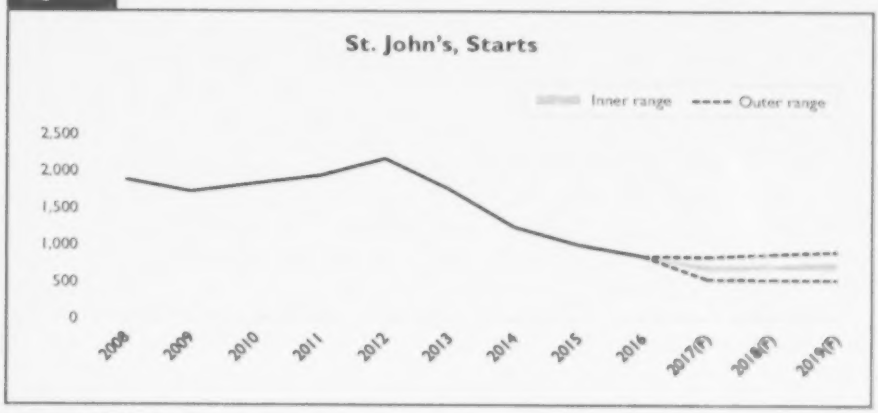
HOUSING MARKET OUTLOOK

St. John's CMA

CANADA MORTGAGE AND HOUSING CORPORATION

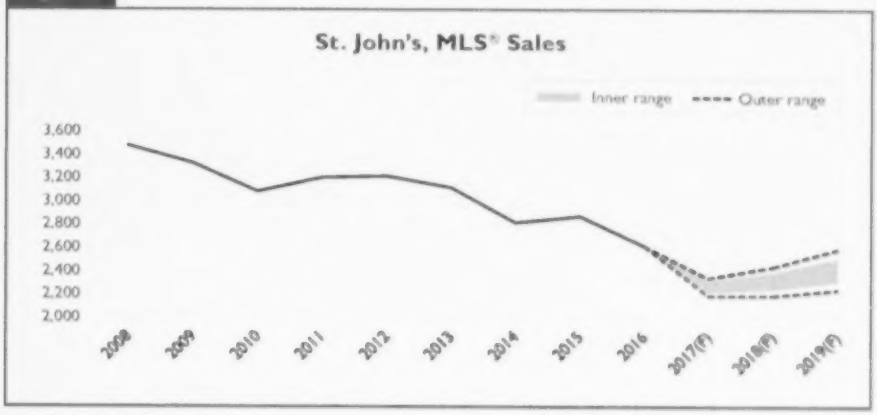
Date Released: Fall 2017

Figure 1



Source: CMHC, (F): Forecast.

Figure 2



Source: CREA; (F): CMHC Forecast.
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St. John's[1]

Economic growth in the St. John's census metropolitan area (CMA) will remain muted over the forecast period. In 2018 and beyond, the economic landscape should begin to brighten though, with the new Hebron offshore oilfield in production and the return of energy and resource investment activity to the province. Furthermore, oil prices are likely to gradually improve due to realignment of global supply with demand in the coming years.

Labour market conditions have continued to soften in the St. John's CMA and are expected to remain weak over the forecast period. The unemployment rate will remain elevated because of ongoing labour force and employment pressures. Potential retirees are likely to continue to exceed new entrants into the labour force. A slowing economy, capital project work completion and a lack of new large project activity will impact employment growth negatively. As a result of a soft labour market, no material gains are expected in average weekly earnings or any other income measures beyond inflation over the forecast period.

[1] The forecasts and historical data included in this document reflect information available as of October 2, 2017.

Canada

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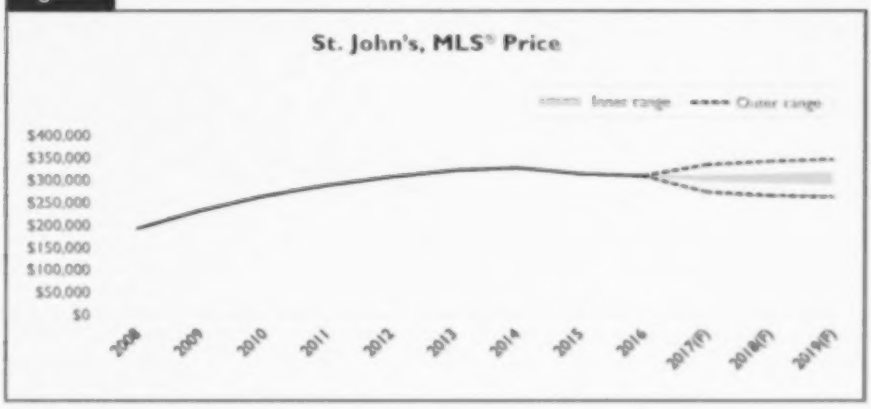
Compared to recent years, net migration is not expected to be as strong over the current forecast. Although it will be lower, international migration is expected to remain positive. Overall, however, net migration will remain relatively weak because of negative interprovincial migration, which is the flow of people to and from other provinces within the St. John's CMA. On the positive side, intraprovincial migration should stay positive as people are expected to continue to migrate to the St. John's region from other parts of the province, particularly non-urban areas. Gains will likely also be made from retirees coming to the region as well as from those seeking new employment opportunities.

Accordingly, single-detached housing demand will remain flat-to-declining over the forecast period. This is mainly due to a lack of growth in population, income and employment, paired with the provincial government's ongoing fiscal challenges. With no large rental projects expected to break ground over the forecast period, multi-unit construction activity is expected to remain well below average. Semi-detached, row, basement apartments and small multi-unit rental projects targeted at seniors and millennials are expected to drive market activity within this segment as well as more affordable housing projects.

A lack of employment and economic growth has not materially impacted home sales activity. There continues to be a wide gap between new and existing price indices and the same will likely hold true over the forecast period. Buyer activity in the under $300,000 segment has been robust, with buyers recognizing the economic slowdown as a good time to enter the market, particularly first-time buyers. Lower oil prices, as well as negative or weak economic growth, will continue to impact sales activity within higher price segments such as $500,000 plus. As a result, residential prices will remain under pressure, driven by a lack of growth in population, income and employment, thus impacting overall housing demand.

Figure 3



Source: CREA; (F): CMHC Forecast
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Mortgage rates are expected to rise gradually over the forecast horizon

Mortgage rates are expected to rise modestly over the period 2017-2019. This increase is consistent with the expected improvement in domestic economic conditions and the predicted increase in world interest rates.

In our baseline scenario, the posted 5-year mortgage rate is expected to lie within the 4.9%-5.7% range in 2018 and within the 5.2%-6.2% range in 2019. Hence, the expected increase in this rate over 2017-2019 should be at most 160 basis points. Over our forecast horizon, mortgage rates are expected to stay below levels observed prior to the Great Recession.

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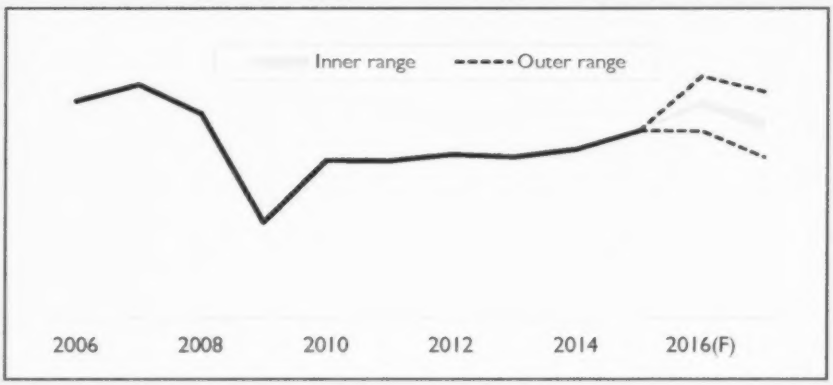
Methodology for forecast ranges

The present edition of *Housing Market Outlook* incorporates forecast ranges for housing variables. Despite this change, all analyses and forecasts of market conditions continue to be conducted using the full range of quantitative and qualitative tools currently available. Two sets of ranges are presented in the publication:

- An inner range, which provides more precise guidance to readers on the outlook while recognizing the small random components of the relationship between the housing market and its drivers. This inner range is based on the coefficient of variation* of historical data and on past forecast accuracy. This range provides precision and direction for forecasts of housing variables, given a specific set of assumptions for the market conditions and underlying economic fundamentals.
- An outer range, which reflects potential risks to the forecast due to, for example, the impact of economic shocks. The outer range is based on a broader coefficient of variation of historical data and on past forecast accuracy. This range includes some low-probability events that could have a significant impact on the forecast.

Downward (or upward) adjustments to the ranges may be applied based on local market intelligence if there are more sources of risks (upside or downside) for that specific market.



* The coefficient of variation in this case is the standard deviation divided by the mean of that series. A higher coefficient of variation would produce wider ranges due to the higher volatility of the data, while a lower coefficient of variation would produce tighter ranges.

Forecast Summary
St. John's CMA
Fall 2017

	2014	2015	2016	2017(F)		2018(F)		2019(F)	
				(L)	(H)	(L)	(H)	(L)	(H)
New Home Market									
Starts:									
Single-Detached	907	729	625	425	475	440	480	450	490
Multiples	323	256	208	210	240	215	245	210	260
Starts - Total	1,230	985	833	635	715	655	725	660	750
Resale Market									
MLS® Sales	2,803	2,856	2,600	2,200	2,300	2,225	2,375	2,300	2,500
MLS® Average Price($)	324,941	311,908	307,323	294,000	309,000	291,000	312,500	288,000	316,000
Economic Overview									
Mortgage Rate(5 year)(%)	4.88	4.67	4.66	4.60	5.00	4.90	5.70	5.20	6.20

	2014	2015	2016	2017(F)	2018(F)	2019(F)
Rental Market						
October Vacancy Rate (%)	4.6	4.7	7.9	8.5	8.0	7.5
Two-bedroom Average Rent (October)($)	888	923	958	925	930	935
Economic Overview						
Population	212,023	214,292	217,454	220,000	222,000	225,000
Annual Employment Level	116,300	115,900	116,400	111,000	111,500	112,500

Multiple Listing Service® (MLS®) is a registered trademark of the Canadian Real Estate Association (CREA).

Rental Market: Privately initiated rental apartment structures of three units and over.

The forecasts (F) included in this document are based on information available as of 2nd October 2017. (L)=Low end of range. (H)=High end of range.

It is possible that the low end (L) and the high end (H) of forecast ranges for residential housing starts for singles and multiples jointly may not add up to the total. This is caused by rounding as well as the volatility of the data.

Source: CMHC (Starts and Completions Survey and Market Absorption Survey). Statistics Canada. Newfoundland and Labrador Association of REALTORS®. CMHC Forecast (2017-2019).

DEFINITIONS AND METHODOLOGY

New Home Market

Historical home starts numbers are collected through CMHC's monthly Starts and Completions Survey. Building permits are used to determine construction sites and visits confirm construction stages. A start is defined as the beginning of construction on a building, usually when the concrete has been poured for the whole of the structure's footing, or an equivalent stage where a basement will not be part of the structure.

Single-Detached Start:
The start of a building containing only one dwelling unit, which is completely separated on all sides from any other dwelling or structure.

Semi-Detached Start:
The start of each of the dwellings in a building containing two dwellings located side-by-side, adjoining no other structure and separated by a common or party wall extending from ground to roof.

Row (or Townhouse) Start:
Refers to the commencement of construction on a dwelling unit in a row of three or more attached dwellings separated by a common or party wall extending from ground to roof.

Apartment and other Starts:
Refers to the commencement of construction on all dwellings other than those described above, including structures commonly known as stacked townhouses, duplexes, triplexes, double duplexes and row duplexes.

Average and Median Single Detached Home Prices:
Are estimated using CMHC's Market Absorption Survey, which collects home prices at absorption and measures the rate at which units are sold or rented after they are completed. Dwellings are enumerated each month after a structure is completed until full absorption occurs. The term "absorbed" means that a housing unit is no longer on the market as it has been sold or rented.

New Home Price Indexes:
Changes in the New Home Price Indexes are estimated using annual averages of Statistics Canada's monthly values for New Housing Price Indexes (NHPI).

Resale Market

Historical resale market data in the summary tables of the Housing Market Outlook Reports refers to residential transactions through the Multiple Listings Services (MLS®) as reported by The Canadian Real Estate Association (CREA). In Quebec, this data is obtained by the Centris® listing system via the Quebec Federation of Real Estate Boards.

MLS® (Centris® in the province of Quebec) Sales:
Refers to the total number of sales made through the Multiple Listings Services in a particular year.

MLS® (Centris® in the province of Quebec) Average Price:
Refers to the average annual price of residential transactions through the Multiple Listings Services.

Rental Market

Rental Market vacancy rates and two bedroom rents information is from Canada Mortgage and Housing Corporation's (CMHC's) October Rental Market Survey (RMS). Conducted on a sample basis in all urban areas with populations of 10,000 and more, the RMS targets privately initiated structures with at least three rental units, which, have been on the market for at least three months. The survey obtains information from owners, managers, or building superintendents through a combination of telephone interviews and site visits.

Vacancy Rate:
The vacancy rate refers to the average vacancy rate of all apartment bedroom types. A unit is considered vacant if, at the time of the survey, it is physically unoccupied and available for immediate rental.

Two Bedroom Rent:
The rent refers to the average of the actual amount tenants pay for two bedroom apartment units. No adjustments are made for the inclusion or exclusion of amenities and services such as heat, hydro, parking, and hot water.

Economic Overview

Labour Force variables include the Annual Employment Level, Employment Growth, Unemployment Rate.
Source: Statistics Canada's Labour Force Survey.

Net Migration:
Sum of net interprovincial (between provinces), net intra-provincial (within provinces), net international (immigration less emigration), returning Canadians and temporary (non-permanent) residents as provided to the CANSIM database by Statistics Canada's Demography Division. Sources of inter-provincial and intra-provincial migration data include a comparison of addresses from individual income tax returns for two consecutive years from Canada Revenue Agency (CRA) taxation records. The migration estimates are modelled, with the tax file results weighted to represent the whole population.

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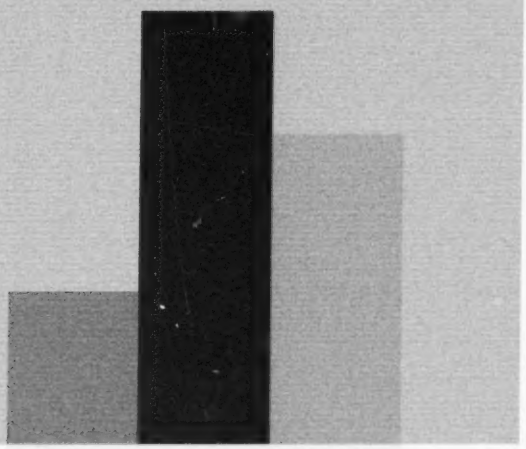

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